

ESSENTIALS OF THE MONETARY POLICY

Federal Reserve (Fed)

The Fed Starts to Taper Its Asset Purchases

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ACCORDING TO THE FED

- ▶ The Committee decided to keep the target range for the federal funds rate at 0.00% to 0.25%.
- ▶ The Committee expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time.
- ▶ In light of the substantial further progress the economy has made toward the Committee's goals, the Committee decided to begin reducing the monthly pace of its net asset purchases by US\$10B for Treasury securities and US\$5B for agency mortgage-backed securities. The Committee judges that similar reductions in the pace of net asset purchases will likely be appropriate each month, but it is prepared to adjust the pace of purchases if warranted by changes in the economic outlook.
- ▶ With progress on vaccinations and strong policy support, indicators of economic activity and employment have continued to strengthen. The sectors most adversely affected by the pandemic have improved in recent months, but the summer's rise in COVID-19 cases has slowed their recovery. Inflation is elevated, largely reflecting factors that are expected to be transitory. Supply and demand imbalances related to the pandemic and the reopening of the economy have contributed to sizable price increases in some sectors. Overall financial conditions remain accommodative.
- ▶ Progress on vaccinations and an easing of supply constraints are expected to support continued gains in economic activity and employment as well as a reduction in inflation.

COMMENTS

Today, Fed officials took the first step toward normalizing the U.S. monetary policy. Discussed for months and signalled fairly clearly in September, the tapering of purchases and its monthly pace come as no surprise. The reduction of US\$15B per month, from US\$120B in October to US\$105B in November and then to US\$90B in December, is in line with our own forecasts. It would therefore appear that the Fed's balance sheet growth policy undertaken in March 2020 will be ending in June 2022. The sum of the securities held by the Fed will have therefore increased from US\$3,848B at the end of February 2020 to US\$8,043B at the end of October 2021. Another US\$420B will be added from mid-November to the end of the program.

A decrease in the degree of monetary easing is entirely normal and could even be viewed as overdue in light of the recent developments in inflation. At 4.4%, the annual variation of the consumption expenditure deflator, the Fed's preferred measurement, is more than double the target. That said, the shortfall in employment is still substantial (-4,970,000 in September compared to February 2020). During the press conference, the Fed Chair pointed out that today's decision does not imply any direct signal on the interest rate policy and that the conditions for the Fed to raise its key rates are stricter than for the asset purchase tapering undertaken today.

IMPLICATIONS

The step the Fed took today is an important one, as it is the first change to its policy since March 2020. Despite the worrying level of inflation, for the time being the Fed is not expected to raise its key rates before the second half of 2022.

Schedule 2021 of Central Bank Meetings

Date	Central banks	Decision	Rate
January			
14	Bank of Korea	s.q.	0.50
20	Bank of Brazil	s.q.	2.00
20	Bank of Canada*	s.q.	0.25
20	Bank of Japan	s.q.	-0.10
21	European Central Bank	s.q.	0.00
21	Bank of Norway	s.q.	0.00
27	Federal Reserve	s.q.	0.25
February			
1	Reserve Bank of Australia	s.q.	0.10
4	Bank of England	s.q.	0.10
10	Bank of Sweden	s.q.	0.00
11	Bank of Mexico	-25 b.p.	4.00
23	Reserve Bank of New Zealand	s.q.	0.25
24	Bank of Korea	s.q.	0.50
March			
1	Reserve Bank of Australia	s.q.	0.10
10	Bank of Canada	s.q.	0.25
11	European Central Bank	s.q.	0.00
17	Bank of Brazil	+75 b.p.	2.75
17	Federal Reserve	s.q.	0.25
18	Bank of England	s.q.	0.10
18	Bank of Norway	s.q.	0.00
18	Bank of Japan	s.q.	-0.10
25	Bank of Mexico	s.q.	4.00
25	Swiss National Bank	s.q.	-0.75
April			
6	Reserve Bank of Australia	s.q.	0.10
13	Reserve Bank of New Zealand	s.q.	0.25
14	Bank of Korea	s.q.	0.50
21	Bank of Canada*	s.q.	0.25
22	European Central Bank	s.q.	0.00
26	Bank of Japan	s.q.	-0.10
27	Bank of Sweden	s.q.	0.00
28	Federal Reserve	s.q.	0.25
May			
4	Reserve Bank of Australia	s.q.	0.10
5	Bank of Brazil	+75 b.p.	3.50
6	Bank of England	s.q.	0.10
6	Bank of Norway	s.q.	0.00
13	Bank of Mexico	s.q.	4.00
25	Reserve Bank of New Zealand	s.q.	0.25
26	Bank of Korea	s.q.	0.50
June			
1	Reserve Bank of Australia	s.q.	0.10
9	Bank of Canada	s.q.	0.25
10	European Central Bank	s.q.	0.00
16	Bank of Brazil	+75 b.p.	4.25
16	Federal Reserve	s.q.	0.25
17	Bank of Norway	s.q.	0.00
17	Bank of Japan	s.q.	-0.10
17	Swiss National Bank	s.q.	-0.75
24	Bank of England	s.q.	0.10
24	Bank of Mexico	+25 b.p.	4.25

Date	Central banks	Decision	Rate
July			
1	Bank of Sweden	s.q.	0.00
6	Reserve Bank of Australia	s.q.	0.10
13	Reserve Bank of New Zealand	s.q.	0.25
14	Bank of Canada*	s.q.	0.25
14	Bank of Korea	s.q.	0.50
15	Bank of Japan	s.q.	-0.10
22	European Central Bank	s.q.	0.00
28	Federal Reserve	s.q.	0.25
August			
3	Reserve Bank of Australia	s.q.	0.10
4	Bank of Brazil	+100 b.p.	5.25
5	Bank of England	s.q.	0.10
12	Bank of Mexico	+25 b.p.	4.50
17	Reserve Bank of New Zealand	s.q.	0.25
19	Bank of Norway	s.q.	0.00
25	Bank of Korea	+25 b.p.	0.75
September			
7	Reserve Bank of Australia	s.q.	0.10
8	Bank of Canada	s.q.	0.25
9	European Central Bank	s.q.	0.00
21	Bank of Sweden	s.q.	0.00
21	Bank of Japan	s.q.	-0.10
22	Bank of Brazil	+100 b.p.	6.25
22	Federal Reserve	s.q.	0.25
23	Bank of England	s.q.	0.10
23	Bank of Norway	+25 b.p.	0.25
23	Swiss National Bank	s.q.	-0.75
30	Bank of Mexico	+25 b.p.	4.75
October			
4	Reserve Bank of Australia	s.q.	0.10
5	Reserve Bank of New Zealand	+25 b.p.	0.50
11	Bank of Korea	s.q.	0.75
27	Bank of Brazil	+150 b.p.	7.75
27	Bank of Japan	s.q.	-0.10
27	Bank of Canada*	s.q.	0.25
28	European Central Bank	s.q.	0.00
November			
1	Reserve Bank of Australia	s.q.	0.10
3	Federal Reserve	s.q.	0.25
4	Bank of England	s.q.	0.10
4	Bank of Norway	s.q.	0.00
11	Bank of Mexico	s.q.	4.00
23	Reserve Bank of New Zealand	s.q.	0.25
24	Bank of Korea	s.q.	0.50
25	Bank of Sweden	s.q.	0.00
December			
6	Reserve Bank of Australia	s.q.	0.10
8	Bank of Brazil	s.q.	5.00
8	Bank of Canada	s.q.	0.25
15	Federal Reserve	s.q.	0.25
16	European Central Bank	s.q.	0.00
16	Bank of England	s.q.	0.10
16	Bank of Norway	s.q.	0.00
16	Bank of Mexico	s.q.	4.00
16	Bank of Japan	s.q.	-0.10
16	Swiss National Bank	s.q.	-0.75

NOTE: Certain banks may decide to change rates in-between the scheduled meetings. The abbreviations s.q. and b.p. correspond to status quo and basis points respectively. * Monetary Policy Report published.